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**Democratic Institutions Support Project**

**WHY ACCOUNTABLE GOVERNANCE?  
DEVELOPMENT CHALLENGES AND  
ACCOUNTABLE GOVERNANCE IN THE  
NEAR EAST**

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## WHY ACCOUNTABLE GOVERNANCE

### A. Development Challenges and Accountable Governance in the Near East

Two historic transformations are sweeping much of the world today: the establishment of open market economies and the movement toward more accountable democratic governance. These processes are closely related; they reflect a pressing need after four decades to realign national and local institutions to facilitate rather than to restrict individual and community participation and initiatives. Near East governments have been relatively slow to adopt these reforms. Although economic reform has accelerated in some Arab countries, in others the pace of change has been leisurely at best. There is universal pressure for greater public accountability, but reform of the polity has been even slower than economic restructuring.

The region reels under the impact of the deep economic recession that followed the collapse of oil prices in the mid-1980s. In the years ahead, the region faces acute development challenges, such as creating jobs for a rapidly growing and young labor force, generating enough foreign exchange to pay for needed imports, managing increasingly scarce water supplies more efficiently, and stimulating the needed investment in both physical and human capital.<sup>1</sup> Although state-led, import-substituting industrialization strategies may have historical achievements to their credit, such approaches clearly cannot cope with current problems. Only a rapidly expanding private sector can provide jobs, food, and foreign exchange for growing Arab populations in the coming decade and beyond.

Development strategies must shift. Such a shift, however, has important implications for government behavior. Not only must the government stop doing some things (such as running highly inefficient state-owned enterprises), but it must also do other things more effectively (such as providing education and physical infrastructure). Economists increasingly recognize that governments must perform many tasks if a market-driven economy is to succeed. Only the government can provide public goods like secure property rights and widely shared information which are necessary for markets to work properly. East Asian experience also strongly suggests that successful developmentalist states need to promote export drives while simultaneously fostering domestic competition.

The (very difficult) trick is to transform "crony capitalism," with its inefficient and corrupt seeking of special favors, into "developmental capitalism," which promotes national economic objectives. Simple logic and much evidence suggest that greater accountability in

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<sup>1</sup>More detail is given in Annex A

governance is a necessary condition for creating such a developmentalist state.<sup>2</sup> Ultimately, only publicly accountable implementation and adjudication agencies will be sufficiently responsive to cope with this decade's (and the next) development challenges.

There are three types of accountability: legal, administrative, and public

- *Legal accountability* involves the effective and independent legal checks on actions of the executive bureaucracy and the creation of fair and predictable legal environments for those outside government. A synonym for "legal accountability" is "the rule of law," in which government officials must follow predictable, codified, publicly sanctioned procedures.
- *Administrative accountability* involves mechanisms within the executive bureaucracy itself that ensure that official actions are held to high standards in the national interest.
- Public accountability concerns the linkages between those in the executive bureaucracy who make and implement policy and regulations and those outside government who are most directly affected by them. In most democratic political systems, public accountability involves electoral institutions, free press, independent parties, advocacy organizations, and legislative bodies.

All three types are interrelated and interdependent, although public accountability is ultimately primary, since without it, there is no way to ensure the continuation of legal and administrative accountability.

Greater legal, administrative, and public accountability in governance is necessary to meet the development challenges of the 1990s:

- Legal accountability: greater reliance on the private sector requires wider scope for the rule of law.
- Administrative accountability: increased governmental responsiveness is needed to ensure that government supports private sector activity without spawning inefficient, corrupt "rent-seeking" behavior.

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<sup>2</sup> It is sometimes asserted that the authoritarianism of East Asia shows that "dictators are good for development." But this is a very simple-minded reading of the East Asian experience. For example, despite the official authoritarianism of the Korean government until very recently, "a hyperactive student movement mobilized popular support to keep the government honest" and "disciplined big business." Alice Amsden, *Asia's Next Giant. South Korea and Late Industrialization*. Oxford and New York: Oxford University Press, 1989, p. vi. Even ostensibly authoritarian regimes which are strongly committed to development cannot maintain that commitment without some form of accountability.

- Public accountability: stabilization and structural adjustment reform packages can only be politically viable over the long run if those who win can express their interests and if those who lose are partially compensated. and feel that they have at least participated in the process of designing these programs.

Private investment can only expand in an environment of **legal accountability**. The capital needed to provide food, jobs, and infrastructure in the Near East must largely come from local citizens. They, and foreign investors, will only take the risks associated with tying up money in illiquid industrial and agricultural investments if political systems cease to be arbitrary and capricious. At the same time, only the private sector can meet the challenge of increasingly sharp international competition in the age of information technologies. Such technologies further undermine arbitrary rule: the faxes which carry this morning's price data also may convey the latest statement of the exiled political opposition. Governments may outlaw faxes outside of their control but such regimes **cannot** compete effectively in international markets, and therefore, cannot solve the problems of food, jobs, foreign exchange, and investment.

The conclusion is inescapable: only a more decentralized political economy with greater reliance on contract and the rule of law has even a chance of coping with the development problems of the end of the twentieth century and beyond. And the rule of law is best protected by constitutional government, in which the public can hold agents of the legal/judicial system accountable. Accordingly, enhancing legal accountability can contribute directly to the Egyptian, Jordanian, Moroccan, and Tunisian mission programs, all of which place strengthening the private sector at the center of their strategies.

Greater **administrative accountability** is equally essential. However, sound a policy may be when formulated, it can only achieve its desired goal if it is properly implemented. This requires that civil servants and government officials be held to the same standards of legal accountability as ordinary citizens, and that mechanisms exist to monitor, report, and make transparent the work of government officials. Private investors must face a predictable business environment, one free from the unexpected surprises which corrupt practices create. Citizens must feel that government programs are fairly administered, rather than simply used to enrich the friends of senior officials.

Both administrative and legal accountability ultimately rest on public accountability. Only a government which can be removed can ultimately be held responsible for the actions of its officials; only a publicly accountable government can be expected to adhere to the rule of law. Public accountability is also directly necessary for meeting the development challenges of the 1990s. Economic reform "packages" must be **credible**: people must believe that the government has the will and resources to "stay the course." The reforms must be **supported**. The old "Social Contract" between rulers and ruled is no longer viable, simply because governments' resources no longer permit the state to supply social welfare benefits like public sector jobs and consumer subsidies in exchange for popular political quiescence.

Regimes need the support of the winners of the economic reform process to counterbalance the inevitable opposition of vested interests.

At the same time, governments need to persuade people of the legitimacy of austerity. This is always difficult, but it is especially so when the average citizen views the ruling elite as a corrupt clique, accountable only to itself, and who are responsible for creating the problems in the first place. Economically, a subsidy cut is equivalent to a tax increase. Political participation is necessary to "share the pain"; if the cry of Bostonians in 1776 was "No Taxation Without Representation!", that of Arabs in the 1990s may be "No Subsidy Cuts Without Participation!" Only economic reforms which are accompanied by measured political reform can be successful over the long run. People who suffer initially must have confidence in the integrity and competence of those who lead them through this difficult process. Only an accountable government can obtain that confidence.

The problem, of course, is how to create greater accountability in governance without inadvertently undermining the long-run prospects for democratization by assisting the enemies of human rights and democracy, inadvertently weakening, rather than strengthening, the economic reform process.

If economic reform fails, and therefore, if jobs are not created, current halting steps toward democracy will stop. If religious fanatics with no commitment to human rights win elections, the experience of casting a ballot will swiftly fade from memory.

Governments are engaged in a delicate balancing act: they must enhance accountability to meet development goals, while preventing the liberalization process from being hijacked by the enemies of democracy; they must widen popular participation in government, without thereby so multiplying short-run demands upon government as to derail the difficult economic reforms which alone have a chance of providing the jobs, food, money, and human development which their peoples require. It is not surprising that governments are proceeding cautiously.

## **B. The Role of U.S. Foreign Assistance**

How can U.S. foreign assistance expedite the twin transformations of the economy and the polity in the Arab world? USAID's Democracy Initiative reintroduces political development as a legitimate focus of U.S. foreign assistance. This Initiative represents an evolution in thinking about development assistance. From the mid-1970s on, the U.S. foreign assistance program sharply distinguished between the "development process" and the "political process"; AID's activities were limited to the former. Development was seen as a set of technical, rather than political, problems. Politics was entirely an internal host-country affair, or was to be left exclusively to other agencies of the U.S. government. In the past decade, two experiences challenged the logic of this dichotomy:

- The wave of "democratic revolution" that has swept much of the world in the past few years, in which dramatic and often successful popular opposition to corrupt authoritarian rule, fostered a reexamination of the potential role of political and legal reform in development assistance.

As AID focused on economic policy reform during the 1980s, experience accumulated that many persistent development problems have political as well as technical roots. It is increasingly recognized that the unchecked and unaccountable - power of the state has sharply constrained further development in many countries.

It is important to stress' the elements of continuity in AID's vision. Sustainability has always been rightly regarded as a critical component of any successful development strategy, program, or project. The key problem facing national governments and development agencies is how to support sustainable economic and political reform. This is a challenging task because although political and economic liberalization have many long-run connections and interdependencies, there are numerous short-run pitfalls in pursuing both sets of reforms simultaneously. For example:

- A sudden opening of the political system in the midst of an acute economic crisis could strengthen vested interests which oppose necessary, albeit painful, reforms;
- Rapid electoral reform may sweep to power groups whose commitment to the democratic rules of the game and to minority and other human rights is dubious;<sup>3</sup>
- Excessively zealous pursuit of economic reform at the expense of all other goals may lead to severe political repression and to the violation of fundamental human rights.

Political reform is essential, because the people of the region demand it and because economic progress requires it: the old strategies of economic centralization and political corporatism cannot be sustained. But political reform is difficult, because the opponents of economic change and of political liberalization stand ready to exploit the opportunities which a wider political space offers them.

AID's Democratic Initiative is a timely recognition of the need for greater cooperation in building effective mechanisms of political, legal, and administrative accountability in governance to facilitate sustainable development. From a practical perspective, it is essential that the Democratic Initiative in the Near East region not be perceived in terms of cultural values. There is much intellectual and cultural ferment in today's Arab world. Historically, the region's cultural relations with the West have been difficult at best, openly antagonistic at worst. The demands for cultural authenticity in institutional structure are very strong and are

<sup>3</sup>Many suspect that these groups seek "one person, one vote, one time." Edward P. Djerejian, "The United States and the Middle East: Partners for Peace." Address to the Middle East Institute, National Press Club, Washington, D.C., October 16, 1992.

perfectly understandable. If the Democratic initiative is perceived in the region as a cultural issue, assistance efforts are doomed before they start.

Fortunately, there is another, more practical approach, one which is fully compatible with both U.S. values and goals, and with Near Easterners' own search for a better future which pays full respect to their traditions. This is the simple recognition that the shared goal of development requires better governance, and that governance can improve only if government becomes more accountable. Precisely how accountability is to be assured is a matter which the peoples of the region will have to solve for themselves. However, as they seek such culturally authentic mechanisms to ensure accountable governance, they will need technical assistance to strengthen the practical activities of those evolving institutions. This can, and should, be the role of USAID's Democratic Initiative in the region.

There are three related arguments here:

- USAID Democratic Initiatives in the region should focus on practical assistance, both because Americans have much expertise in the "nuts and bolts" of accountable governance, and also because such an approach reduces the opportunities for Arab Nationalists and Islamists to accuse the U.S. with "interference in their affairs" and with "Crusading."
- Solving the region's development problems requires enhanced governance;
- Governance can improve only if government becomes more accountable.

The rationale of USAID's involvement in democratization activities comes from the logic of the development process, not from any cultural assumptions or norms; there is no need to resort to self-defeating normative approaches which invite charges of cultural insensitivity and "imposition of American values."

The task of supporting accountable governance is complex and fraught with difficulties. It takes longer to recover from a GDP mistake; it is also critical to ensure that programmed activities are likely to have the desired outcome. This is especially difficult in the governance area, where unintended, sometimes desired outcomes are common. Careful analysis and strategic planning is essential to avoid unintended negative impacts.

A three-step country GDP strategy design process is recommended:

- Preparation of a country Political Economy Review
- Preparation of key GDP Sector Assessments
- A strategic selection of key program components based on the first two background analyses

Under normal circumstances this process should require six months; during that time, interim activities can proceed.

The first step involves gaining a full understanding of the underlying structure of political economic interests that shape national and local institutions.<sup>4</sup> The second follows up with institutional assessments in selected GDP "sectors" (e.g., legal/judicial, parliament, municipal government). Both "levels" of analysis are needed-an exclusive emphasis on technical shortcomings in institutions such as parliament,-the court system, or various advocacy organizations misses deeper questions of *why* these institutions have remained so persistently weak or dysfunctional. Where such institutions exist-and they do exist throughout most of the Near East-they have typically been shaped to support, or at least not to challenge, existing political and economic interests. Serious efforts to strengthen such institutions in ways that increase public, legal or administrative accountability *inevitably* challenge existing interests and arrangements. *Ad hoc* or overly ambitious institution building efforts designed without full knowledge of such interests and relationships can usually be directly blocked or absorbed with little real impact. In some cases, the resulting *appearance* of reform may actually undermine progress toward genuine reform. Activities to support accountable governance in a sustainable manner must be grounded on a realistic and thorough appraisal of the structure of interests.

The third step in a Mission GDP Strategy design process is for senior USAID management to draw on the above analyses to identify the specific problem areas in which the mission will concentrate its GDP resources. This process should begin with an identification of the main political and legal institutional constraints to development and a consideration of how US assistance might best be used to address those constraints. A series of programmatic "filters" should then be used to narrow the field to a specific set of program areas and activities on which the Mission will focus. These filters should include (1) focus on opportunities for major impact with limited resources, (2) ensuring that results are sustainable without the need for continuing foreign assistance, and (3) minimizing USAID direct hire staff costs. The final program should be formalized in a Mission GDP strategy document which is reviewed and approved at the AA level.

As should be apparent from the above discussion, activities in support of accountable governance are not merely fully consistent with on-going mission programs, they can contribute significantly to achieving already formulated development assistance goals. The Democratic Institutions Support Project is designed to reduce the burden on missions by providing Technical Assistance to expedite incorporating governance-enhancing activities into mission portfolios. In some cases, this can be done through adding a "governance component" to existing activities, in others through new activities. In all cases, activities which strengthen accountable governance can make important contributions toward achieving development goals in the region.

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<sup>4</sup> Drafts of Political Economy Reviews are available for Egypt, Jordan, Morocco, Tunisia, and Yemen.



## ANNEX A

### DEVELOPMENT CHALLENGES OF THE 1990s

Despite important national differences, four core problems dominate the current development agenda in the region: jobs, food, money, and human development. Let us take a quick glance at each.

**Jobs.** The rapidly growing supply of labor is an economic, social, and political timebomb in the Near East. Perhaps no other problem is so pressing as the need to provide jobs to the ever-increasing numbers of young men who are now coming of age. Thanks to stubbornly high fertility rates, in most countries the labor force is growing by well over 2 percent per year. Despite recent progress in reducing fertility, in few countries will the rate of growth markedly decelerate during the coming decade. Gulf Crisis-induced returnees to Jordan and Yemen have, further swelled labor supply by 300,000 and one million people, respectively.

Unfortunately, the number of jobs is not keeping up with the number of job-seekers: supply is outrunning demand. The demand for labor has been slowed by 1) the antiemployment bias of past economic policies (specifically, state-led, capital-intensive, and highly protected industrialization policies) and 2) the prolonged recession of the late 1980s and early 1990s-for the region as a whole, per capita income fell by roughly 30 percent during the 1980s.<sup>5</sup> Consequently, all countries face some combination of falling real wages and rising unemployment. In Egypt, for example, some 6 million jobs must be created during the 1990s simply to provide jobs to new workers (that is, with no reduction in employment, increase in real wages, or expanded female labor force participation). In an economy whose total labor force in 1990 was perhaps 14 million, this is a daunting challenge. During the past seven years, unskilled real wages have fallen over 40 percent.<sup>6</sup>

Everywhere the burden falls most heavily on the young. In Jordan and Morocco, roughly one of five urban young men is unemployed; youth unemployment in Tunisia is estimated at over 30 percent; the official unemployment rate in Yemen is 25 percent. Some believe that 35 percent of young Algerians have little prospect of having any job in the foreseeable future. The concept of "unemployment" breaks down at such high levels, as young men scrounge whatever living they can from the informal sector and/or from the grey (or black) economy of semi- or illegal activity. In some countries, there is evidence that the

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<sup>5</sup> World Bank data, reported by Caio Koch-Weser, Vice President for Middle East and North Africa Region in "Reform and Regional Cooperation: A Development Agenda for the Middle East and North Africa," The 46th Annual Conference of the Middle East Institute, Washington, D.C., October 16, 1992.

<sup>6</sup>See, e.g., the essays in *Employment and Structural Adjustment. Egypt in the 1990s*. Heba Handoussa and Gillian Potter, eds. Cairo: American University in Cairo Press for the ILO, 1991.

educated have higher unemployment rates than the illiterate, who are so poor that they must take any job at all.

The definitions may be in doubt, but not the frustrations. Many of these young men have gone through some basic education, but the quality of their training has ill-equipped many of them for modern economic activity.<sup>7</sup> These underemployed, semi-educated young men constitute a critical source of support for extremist Islamist groups throughout the region.<sup>8</sup> The greatest single social challenge facing regional leaders is providing jobs for the expanding, very young labor force. Solving the unemployment problem is a necessary condition for the success of both economic and political reform in the Near East. In recognition of this situation, both the Morocco and the Tunisia Missions have employment creation as one of their Strategic Objectives.

It is by now widely recognized that the old mechanisms of artificial public sector job creation and emigration abroad cannot provide the needed jobs. Government payrolls cannot continue to expand; indeed, the imperatives of structural adjustment are already shrinking them. Nor can the other safety valve of the past, emigration abroad, be counted upon any longer. Neither the EC nor the Gulf States are likely to generate employment opportunities for young Maghrebis, Egyptians, Jordanians, and Yemenis as they did in past decades. If only by default, the sole hope of coping with the rising demographic tide is a flexible, rapidly growing private sector pursuing comparative-advantage-generated niches in the international economy.

All AID missions in the Near East seek to promote such a strategy. The Egypt mission seeks to foster an "environment within which the private sector can participate fully and fairly in the economy," and the Jordan mission's private sector program continues to be the primary vehicle for improving the country's balance of trade. The Morocco mission tries to increase employment by fostering changes in the policy environment to increase private investment, and the Tunisia mission seeks to revitalize the private sector. Strengthening the private sector is a common theme to all regional development efforts.

The necessarily leading role of the private sector in meeting the employment challenge has important implications for accountability in governance. Entrepreneurs, if left alone, will find competitive niches (although governments can and must assist them with information and other logistical support). But investors must feel secure that their illiquid investments will not be confiscated. Only if governments can succeed in creating a suitable investment climate will Middle Eastern nations have a chance at solving the problem of job creation in the years

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<sup>7</sup> See, e.g., Alan Richards and John Waterbury, *A Political Economy of the Middle East*. Boulder, CO: Westview Press, Chapter 5, "Health and Education"..

<sup>8</sup> See, e.g., Mark Tessler, "The Origins of Popular Support for Islamist Movements: A Political Economy Analysis." Seminar on Political and Economic Islam, Washington, D.C., 19 May, 1992, Sponsored by USAID, NF/GDP.

ahead. Secure property rights, grounded in the rule of law, are a necessary condition for solving the most pressing single problem in the region's political economy. Greater predictability of the regulatory environment is equally necessary. Creating a climate favorable to private sector investment requires supporting governance which is more legally and administratively accountable.

**Food and Water.** Near Easterners hold their governments responsible for assuring food security. Informed analysts have long recognized that "food security" must not be conflated with "food self-sufficiency." Although politicians are often unable to resist the Siren Song of alimentary autarchy, food self-sufficiency for most countries in the region is impossible. This fact has important policy implications, which in turn have implications for accountability in governance.

Part of any sensible food-security portfolio will be improved, more efficient domestic production. More sophisticated production and marketing technologies must be developed and diffused throughout the region, and many countries are concentrating development programs in this area. More decentralized, private-sector driven food systems must be created. USAID Missions have long supported such policy reforms. There are significant "winners" to such policy change, but they often are relatively unorganized politically. Improving farmers' ability to express their interests can significantly support economic reform efforts in Morocco, Tunisia, Jordan, and Egypt.

As the water constraint binds more tightly in the years ahead, continued agricultural growth will require increasingly sophisticated irrigation technologies and management systems, which in turn will necessitate more effective collective action at the local level and heightened political participation. Irrigation systems must change from being "supply driven" (i.e., centrally planned) to being "demand driven," that is, responsive to the needs of small groups of farmers. Water pricing can help, but for administrative reasons, prices will probably have to be charged to small groups of farmers rather than to individuals in most gravity-flow (e.g., river-based) irrigation systems. The formation and heightened effectiveness of "water users associations" is a necessary condition for promoting food security in the years ahead. More accountable governance can contribute to the successful pursuit of the strategic objective of improved water management in Jordan. Enhanced public and administrative accountability is a necessary condition for the more efficient allocation of the region's scarcest resource, water.

However, even with the most sophisticated of irrigation systems, if per capita income growth resumes, the demand for food will increase more rapidly, and domestic production will find it difficult to keep pace. Fortunately, consumers' food security can be obtained in another way: through trade. Few would argue that Singapore or Korea fail to enjoy food security. Middle Eastern political economies will have to emulate other economically successful but agricultural resource poor nations to achieve food security in the 1990s and beyond. Increasingly, Middle Eastern nations must export in order to eat.

**Money.** This brings us to the third critical challenge facing the region, the shortage of capital. Given the vast financial resources of the Gulf, it may seem odd to posit such a shortage. However, the Gulf War has made it clear that the capital-rich states will invest their money only where it earns the highest return. Appeals to "Arab Unity," always hollow, have now been relegated to the history books. Demands to "share the oil wealth" are equally misplaced. A more practical and relevant approach is to foster a climate conducive to the proper allocation of already existing savings.

Many countries of the region do have a "debt problem." The combined debt of Arab countries is now about \$115 billion. Egypt skillfully used its participation in the Gulf War Coalition to reduce its debt by roughly 50 percent, staunching some \$2 billion of yearly debt-service outflows. But in Morocco and Jordan, for example, debt service payments consume nearly one-third of exports. All countries of the region compete with Eastern Europe and the countries of the former Soviet Union for capital investment. And the need for investment in more sophisticated technologies for production and distribution, for cities and farms, for communications and educational facilities, is extremely large. To take only one example, the capital needs for reconstruction in Lebanon are conservatively estimated at \$5 billion over 5 years; the needs in Egypt (55 million) and the Maghreb (58 million) are far larger.

But international indebtedness is **not** the root of regional capital scarcity. Neither can we blame deficient savings propensities, for which there is no evidence whatsoever. Egypt offers a useful illustration: it has been estimated that the "off-shore" holdings of hard currency by Egyptians are estimated to exceed \$80 billion, nearly twice the sum of Egypt's pre-Gulf War international debt. In 1988, gross investment in Egypt was about LE 8.4 billion, or some \$3 billion at 1988 official exchange rates.<sup>9</sup> The estimated \$6.2 billion of Jordanian external savings is over 160 percent of Jordan's GNP, while Moroccan and Tunisian external savings are over 1/3 of those countries' GNPs.<sup>10</sup> Middle Eastern savings are abundant.

The problem of investment capital in the Middle East is fundamentally institutional. Savers and investors (with good reason) fear and distrust national governments. Specifically, they fear that their savings will be expropriated either flagrantly by state decree, or stealthily via rampant inflation and overvalued exchange rates. Unsurprisingly, they hold their savings off-shore or in highly liquid domestic assets. Only if genuine political reform creates secure private property rights and an independent judicial system to enforce those rights will the savings of Middle Easterners be placed inside their own countries, and, still more difficult to induce, in the kind of illiquid, fixed capital investment (like factories) which the region needs to, produce the goods to sell abroad to buy food and to create jobs

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<sup>9</sup>World Bank, Arab Republic of Egypt: Country Economic Memorandum: Economic Readjustment. with Growth, Volume 2, February 2, 1990, page 1.

<sup>10</sup> See Ishac Diwan and Lyn Squire, "Economic Development and Cooperation in the Middle East and North Africa." World Bank Middle East and North Africa Discussion Paper No. 9, November, 1993